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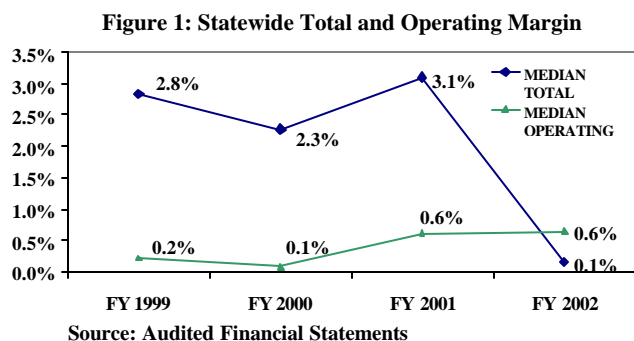
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# Connecticut Acute Care Hospital Statewide Financial Analysis

## Introduction

The overall financial status of Connecticut's 31 acute care hospitals weakened in FY 2002 with total margins showing the greatest decline. The median operating margin was stable from FY 2001 to FY 2002 at .6%, however the median total margin decreased significantly, sinking from 3.1% in FY 2001 to .1% in FY 2002. The median operating margin outpaced the median total margin for the first time in four years, as shown below.



## Statewide Operating Margin

The percentage of hospitals with a negative operating margin increased slightly to 39% from 35% in FY 2001. Hospital efforts to maintain positive operating margins intensified during FY 2002 due to extraordinarily large increases in certain expense categories and increased financial obligations. Hospitals reported that malpractice expense increased 55%, and both fringe benefits and capital expenditures rose nearly 20% over FY 2001 levels. In addition to shouldering increasing expense levels, hospitals also funded increased pension liabilities and kept current on their long-term debt obligations totaling nearly \$1.3 billion in FY 2002. Connecticut Hospitals' continuous efforts to effectively manage these fiscal challenges were evident however, with

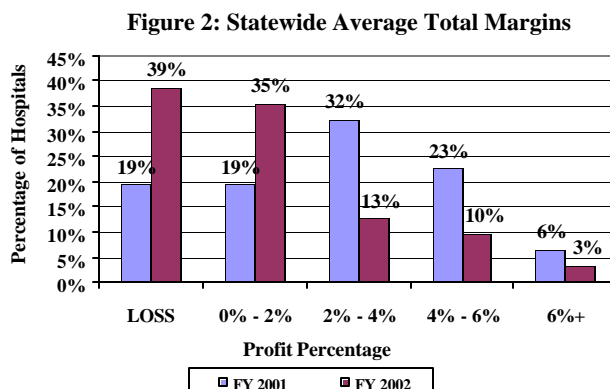
an overall net increase of just 8% in operating expenses from FY 2001 to FY 2002.

## Statewide Total Margin

The statewide median total margin dropped significantly during FY 2002 as hospitals fully recognized extraordinary losses on investments. The percentage of hospitals with negative total margins doubled to 39% in FY 2002 from 19% in FY 2001.

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These results signal an extremely challenging environment for Connecticut hospitals, the majority of which are non-profit entities that have historically relied on investment income to fund capital projects and operating costs during financially challenging periods. The continuing decline in investment values and related income will significantly affect hospitals future operations. Figure 2, below summarizes the statewide distribution of total margins for the past two years.

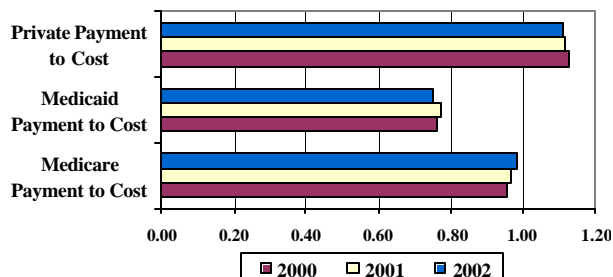


### Connecticut's Three-Year Trends

Connecticut Hospitals' Gross Revenue totaled \$9.4 billion dollars in FY 2002, up 26% from FY 2000 levels. Inpatient gross revenues averaged 63% of total gross revenues during this three-year period. While the volume of discharges increased more than 5% since FY 2000, the average length of stay remained at 5 days, payer mix percentage was consistent at 46% non-government and uncompensated care costs maintained an average of 3.5% of total expenses. These steady results demonstrate consistencies and common patient characteristics within Connecticut's increasing patient population.

Low and declining reimbursement levels have been an ongoing struggle for hospitals. Three year trends of the ratio of cost to charges for non-government, Medicare and Medicaid show slight variations in reimbursement levels compared to the cost of care, as shown below in Figure 3.

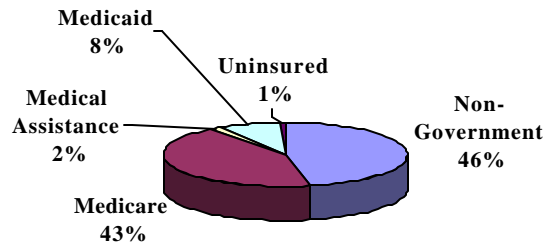
**Figure 3: Payment to Cost Ratios**



### Payer Mix

As discussed earlier, Connecticut's hospital payer mix has remained relatively unchanged for the past several years. Government payers accounted for approximately 53% of net revenues while non-government payers comprised 46% of the hospitals net revenue. For a further breakdown of hospital net revenues see Figure 4.

**Figure 4: Hospital Payer Mix - FY 2002**



### Conclusion

Overall, Connecticut's acute care hospitals face a difficult road ahead. The recurring themes of qualified patient care staff shortages, and dramatic increases in malpractice insurance expense and pension liabilities continue to hinder growth in profit margins needed to attain financial stability. These factors coupled with low and declining reimbursements from private and government payers threaten the long term financial viability of these institutions. Detailed financial performance information on each of Connecticut's hospitals will be provided in the upcoming publication of OHCA's Annual Report on the Financial Stability of Connecticut's Short Term Acute Care Hospitals. For additional information on individual hospitals please access OHCA's website at [www.ohca.state.ct.us](http://www.ohca.state.ct.us).

### Notes

The data used in this report was compiled from data filed with OHCA by the State of Connecticut's 31 Acute Care Hospitals. Annual operating results are required to be filed with OHCA pursuant to Section 19a-644, C.G.S., Section 19a-167g-91 of the Regulations of Connecticut State Agencies and Section 19a-676, C.G.S. The data is based on the hospital fiscal year, which runs from October 1 through September 30.

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